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RHEHNSC/NSC WASHDC
RUMIAAA/HQ USSOUTHCOM MIAMI FL
RUCPDO/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY

C O N F I D E N T I A L CARACAS 000493

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HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MMALLOY
NSC FOR JSHRIER
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TAGS: [ECON](#) [EFIN](#) [VE](#)
SUBJECT: BRV UNVEILS NATIONAL INFLATION INDEX

REF: A. CARACAS 313
[1](#)B. CARACAS 136
[1](#)C. 2007 CARACAS 1031

Classified By: Acting Economic Counselor Shawn Flatt for reasons 1.4
(b) and (d).

[1](#)1. (SBU) Summary: The Central Bank (BCV) and National Statistics Institute (INE) unveiled on April 7 a national consumer price index (CPI-N), which replaces the metropolitan Caracas index (CPI-C) as the BRV's official inflation measure. According to the CPI-N, prices rose 3.1, 2.1, and 1.7 percent in January, February, and March, respectively, for an accumulated inflation of 7.1 percent in the first quarter of 2008. Independent economic analysts see the objective of developing a national index as laudable but have expressed doubts about the potential for manipulation. End summary.

[1](#)2. (U) Following a pre-announced plan, on April 7 the BCV and INE published the CPI-N for the first three months of [1](#)2008. Per the CPI-N, which is legally now the BRV's official measure, inflation was 3.1, 2.1, and 1.7 percent in January, February, and March, respectively, for an accumulated three-month total of 7.1 percent. The CPI-N marks a significant change from the previous official measure, an index covering metropolitan Caracas (itself recently revised - see ref B) elaborated by the BCV. The CPI-N, in contrast, covers 10 major cities and 74 other localities, with the fieldwork shared between INE and the BCV. According to the BCV, separate indices for each of the 10 cities, including the CPI-C, will be published on April 11. Continued publication of the CPI-C is significant, as it will allow for historical comparisons. (Note: One could not compare inflation in January 2007 and January 2008 using the CPI-C for 2007 and the CPI-N for 2008, for example, as they measure different things. End note.) The CPI-N showed slightly lower inflation for January and February than the CPI-C, which put inflation in Caracas at 3.4 and 2.3 percent for those two months.

[1](#)3. (SBU) In a presentation explaining the rollout of the CPI-N, the BCV and INE were careful to portray the changes as moving Venezuela's indicator toward international best practices. Independent economic analysts have generally characterized the stated objectives of the new index as laudable but view its actual implementation with varying

degrees of skepticism. One key concern is the large role carved out for INE, an agency that falls under the Ministry of People's Power for Planning and Development and has a history of producing questionable statistics where political issues are at stake (ref C). (Note: The breakdown of responsibilities between the BCV and INE is not clear, but it appears that INE will have responsibility for conducting price surveys outside Caracas and Maracaibo. End note.) While noting that the BCV and INE have been working to develop the CPI-N for some time, a former BCV statistician told Econoff that INE's technical capabilities were not as good as the BCV's and that INE staff were likely subject to more political pressure. Another local analyst argued that the many unspecified details of the CPI-N, such as what establishments and what goods and services would be surveyed, offered ample opportunities for manipulation.

14. (C) Comment: In a country less politically polarized or where inflation was not a major concern, the development of a national inflation index would be uncontroversial. In Venezuela, with inflation an important political issue and given the BRV's penchant for manipulating numbers, analysts' skepticism is understandable. Indeed, we would be surprised if the BRV did not use the rollout of the CPI-N to make some methodological tweaks that would cause inflation to appear lower, at least initially. Manipulating numbers, however, cannot mask the increasing dent that rising prices are having on household purchasing power (ref A). End comment.
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